

VII. STANDING COMMITTEE

B. Finance, Audit and Facilities Committee

Investment Performance Report, Second Quarter Fiscal Year 2009

Attachments:

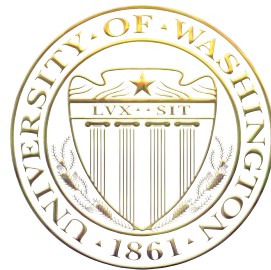
1. Investment Performance Report to the Board of Regents

# UNIVERSITY OF WASHINGTON

## INVESTMENT PERFORMANCE REPORT TO THE BOARD OF REGENTS

SECOND QUARTER FISCAL YEAR 2009

As of December 31, 2008



TREASURER, BOARD OF REGENTS  
TREASURY OFFICE

Published February 2009

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# TREASURY ASSETS<sup>1</sup>

As of 12/31/08—\$2.8 Billion

Dollars in Millions



## Endowment & Similar Funds

|                             |                       |
|-----------------------------|-----------------------|
| Endowment Funds             | \$1,294               |
| Operating Funds             | <u>324</u>            |
| Consolidated Endowment Fund | 1,618                 |
| Life Income Trusts          | 64                    |
| Outside Trusts              | 42                    |
| Non-CEF Endowments          | 17                    |
| Permanent Fund <sup>6</sup> | <u>29</u>             |
|                             | <b><u>\$1,770</u></b> |

## Operating & Reserve Funds

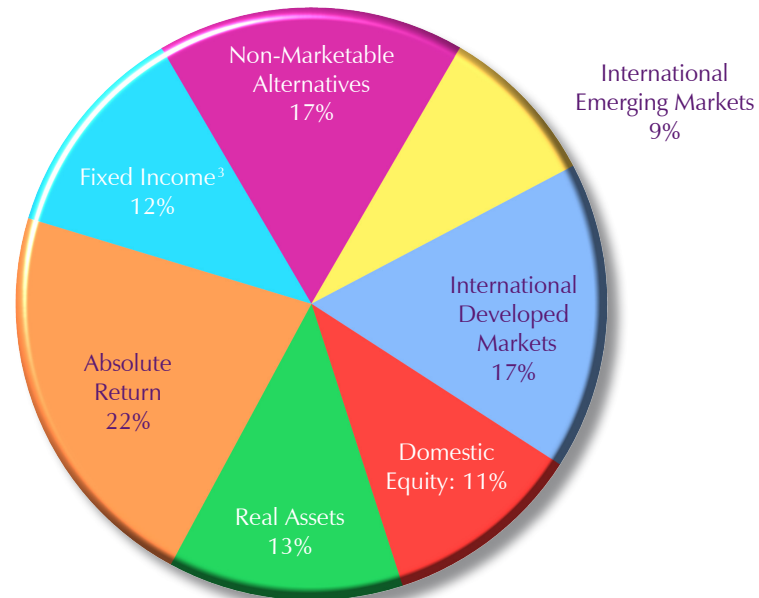
|   |                       |
|---|-----------------------|
| Invested Funds <sup>2,3</sup>           | \$981                 |
| Bond Retirement Fund <sup>4</sup>       | 17                    |
| Building Fund <sup>4</sup>              | 18                    |
| Debt Service Reserve Funds <sup>5</sup> | 12                    |
| Bond Proceeds <sup>7</sup>              | <u>47</u>             |
|   | <b><u>\$1,075</u></b> |

1. Includes assets whose management falls under the auspices of the Finance & Audit Committee of the Board of Regents. Excludes Metro Tract and Forest Trust Lands. All dollar amounts are expressed in millions and represent market values.
2. The Invested Funds holds Consolidated Endowment Fund units valued at \$324. To avoid double counting, the dollars are included only in the CEF totals.
3. In June 2002, the Board of Regents authorized the establishment of a captive insurance company, Portage Bay Insurance(PBI). The previous insurance vehicle, the Self Insurance Revolving Fund(SIRF), will close after existing claims are resolved. Current balances: PBI \$74.5 SIRF \$2.9.
4. General obligation bond reserve fund on deposit with the state of Washington.
5. Required reserve funds for locally issued bonds (TSB Properties \$1.2, Twenty Fifth Ave Prop \$2.4, 2004 Parking \$1.4, 2002 Housing & Dining \$1.5, 2004 Housing & Dining \$0.6, Roosevelt 1 \$2.3, Roosevelt 2 \$2.0 and Commodore Duchess \$0.6)
6. Proceeds from sale of land grants and subsequent investment returns on deposit with the state of Washington.
7. Construction project funds which have not yet been disbursed (IMA \$7.2, 200 R&T \$12.4, 2004 Parking \$5.8, Internal Lending Program \$9.2 & 2007 General Revenue Bond \$12.0)

# ASSET ALLOCATION

As of December 31, 2008

Consolidated Endowment Fund<sup>1</sup>—\$1,618 MM



Dollars in Millions

|  | Current Allocation <sup>2</sup> |                    | Policy Target | Policy Range |
|--|---------------------------------|--------------------|---------------|--------------|
| Non-Marketable Alternatives              | \$274                           | 17%                | 12%           | 5%-25%       |
| International Emerging Markets           | \$147                           | 9%                 | 13%           | 5%-35%       |
| International Developed Markets          | \$268                           | 17%                | 16%           | 5%-35%       |
| Domestic Equity                          | \$185                           | 11%                | 15%           | 5%-35%       |
| Equity Fund                              | <u>\$874</u>                    | <u>54%</u>         | 56%           | 45%-75%      |
| Real Assets Fund                         | \$207                           | 13%                | 15%           | 5%-25%       |
| Absolute Return                          | \$348                           | 22%                | 18%           | 5%-25%       |
| Fixed Income Fund <sup>3</sup>           | \$189                           | 12%                | 11%           | 5%-35%       |
| <b>Total Consolidated Endowment Fund</b> | <b><u>\$1,618</u></b>           | <b><u>100%</u></b> |               |              |

1. International exposure: 35%, net foreign currency exposure: 35%.
2. Current exposure percentage may not add to 100% due to rounding.
3. Includes allocation to cash.

# CONSOLIDATED ENDOWMENT FUND (CEF)

For the Quarter ending December 31, 2008

## Total Returns As of 12/31/08 <sup>1</sup> (%)

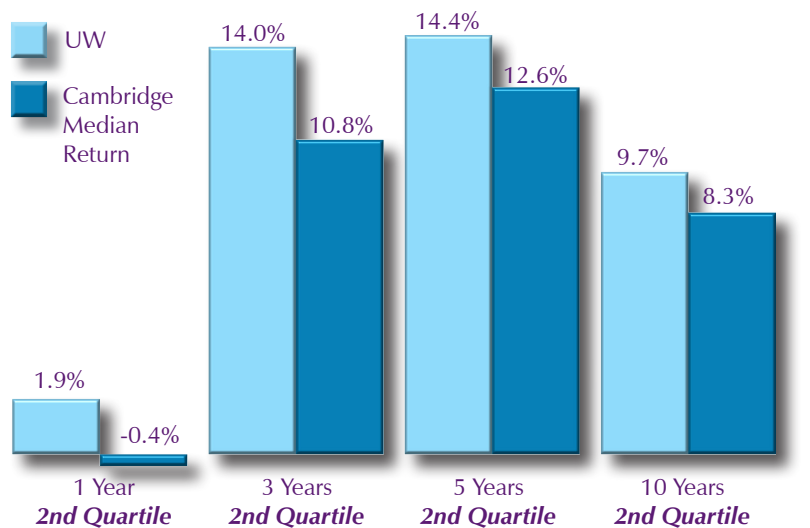
|                                    | 2 <sup>nd</sup> Qtr<br>FY 2009 | FYTD         | 1-Year       | 5-Year     | 10-Year    |
|------------------------------------|--------------------------------|--------------|--------------|------------|------------|
| <b>Total CEF Return</b>            | <b>-14.9</b>                   | <b>-25.0</b> | <b>-27.9</b> | <b>5.5</b> | <b>6.3</b> |
| Strategy Weighted Policy Benchmark | -11.1                          | -18.3        | -21.5        | 5.7        | 5.3        |
| <b>Equity Fund</b>                 | <b>-17.5</b>                   | <b>-29.6</b> | <b>-33.9</b> | <b>4.6</b> | <b>5.9</b> |
| Weighted Policy Benchmark          | -18.6                          | -29.1        | -33.9        | 3.4        | 3.7        |
| <b>Real Assets Fund</b>            | <b>-17.9</b>                   | <b>-28.2</b> | <b>-22.9</b> | <b>8.6</b> | <b>--</b>  |
| Policy Benchmark                   | -5.1                           | -8.4         | -1.2         | 11.3       | --         |
| <b>Absolute Return Fund</b>        | <b>-13.4</b>                   | <b>-22.2</b> | <b>--</b>    | <b>--</b>  | <b>--</b>  |
| Policy Benchmark                   | -3.6                           | -5.8         | --           | --         | --         |
| <b>Fixed Income Fund</b>           | <b>-1.7</b>                    | <b>-2.4</b>  | <b>-3.2</b>  | <b>3.7</b> | <b>4.6</b> |
| Policy Benchmark (LB Govt Bond)    | 8.0                            | 10.1         | 12.4         | 6.1        | 6.2        |

<sup>1</sup> Average Annual Compound Return

## Activity (\$ in Millions)

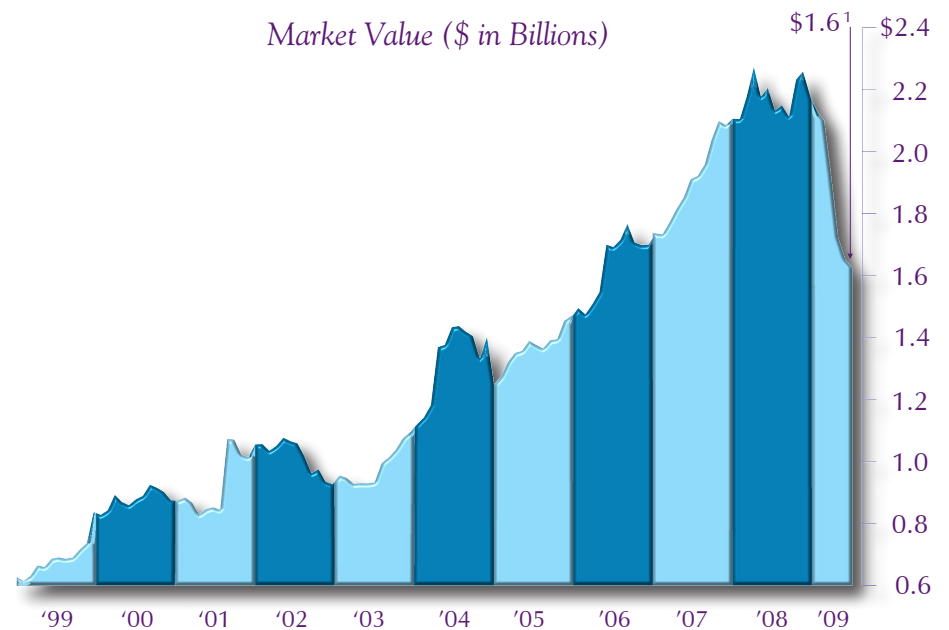
|                           | FYTD 09      | FY 2008      | FY 2007      | 5 Years      | 10 Years     |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Beginning Balance</b>  | <b>2,161</b> | <b>2,074</b> | <b>1,690</b> | <b>1,177</b> | <b>604</b>   |
| Gifts                     | 55           | 99           | 66           | 410          | 620          |
| Transfers                 | 5            | 8            | 9            | 59           | 103          |
| <b>Total Additions</b>    | <b>60</b>    | <b>107</b>   | <b>75</b>    | <b>469</b>   | <b>723</b>   |
| Operating Funds Purchases | 0            | 44           | 15           | 96           | 360          |
| Net Investment Return     | (544)        | 53           | 392          | 360          | 653          |
| Distributions             | (51)         | (94)         | (81)         | (401)        | (608)        |
| Administrative Fees       | (2)          | (4)          | (4)          | (17)         | (26)         |
| Development Support       | (8)          | (17)         | (14)         | (67)         | (89)         |
| <b>Ending Balance</b>     | <b>1,618</b> | <b>2,161</b> | <b>2,074</b> | <b>1,618</b> | <b>1,618</b> |
| Net Change                | (544)        | 88           | 384          | 441          | 1,014        |

## UW & Cambridge Associates <sup>1</sup> Returns for periods ending 6/30/08



<sup>1</sup> Cambridge Associates College and University Investment Pool Top 50 (by Investment Pool Market Value)

## Market Value (\$ in Billions)



<sup>1</sup> Reflects inclusion of IF units in CEF starting 7/01—value without would be \$1.3

# PERFORMANCE UPDATE

Total Return<sup>1</sup> As of 12/31/08

|  | 2 <sup>nd</sup> Qtr FY '09 | FYTD         | 1 Year       | 3 Years     | 5 Years    | 10 Years   |
|--|----------------------------|--------------|--------------|-------------|------------|------------|
| <b>Consolidated Endowment Fund</b>       | <b>-14.9</b>               | <b>-25.0</b> | <b>-27.9</b> | <b>0.0</b>  | <b>5.5</b> | <b>6.3</b> |
| <b>Equity Fund</b>                       | <b>-17.5</b>               | <b>-29.6</b> | <b>-33.9</b> | <b>-1.9</b> | <b>4.6</b> | <b>5.9</b> |
| Non-Marketable Alternatives <sup>2</sup> | -8.9                       | -10.2        | -6.6         | 12.2        | 14.8       | 12.7       |
| Global Equity <sup>3</sup>               | -20.9                      | -35.7        | —            | —           | —          | —          |
| International Emerging Markets           | -25.9                      | -45.1        | -52.0        | 0.9         | 10.4       | 12.2       |
| International Developed Markets          | -16.5                      | -32.5        | -39.5        | -7.4        | 2.4        | 1.9        |
| Domestic Equity                          | -22.4                      | -31.1        | -37.7        | -9.1        | -1.7       | 1.9        |
| <b>Real Assets Fund</b>                  | <b>-17.9</b>               | <b>-28.2</b> | <b>-22.9</b> | <b>1.0</b>  | <b>8.6</b> | <b>—</b>   |
| Absolute Return Fund <sup>3</sup>        | -13.4                      | -22.2        | —            | —           | —          | —          |
| <b>Fixed Income Fund</b>                 | <b>-1.7</b>                | <b>-2.4</b>  | <b>-3.2</b>  | <b>3.7</b>  | <b>3.7</b> | <b>4.6</b> |
| <b>Public Market Indices</b>             |                            |              |              |             |            |            |
| <i>Equity Indices</i>                    |                            |              |              |             |            |            |
| MSCI ACWI                                | -22.3                      | -39.3        | -45.2        | -6.6        | 3.0        | 2.3        |
| Russell 3000                             | -22.8                      | -29.5        | -37.3        | -8.6        | -2.0       | -0.8       |
| NASDAQ                                   | -27.6                      | -34.3        | -43.2        | -11.9       | -5.5       | -3.7       |
| NAREIT                                   | -38.8                      | -35.4        | -37.7        | -10.8       | 0.9        | 7.4        |
| Dow Jones Industrial Average             | -18.4                      | -21.6        | -32.0        | -4.2        | -1.1       | 1.6        |
| MSCI EAFE                                | -19.9                      | -36.3        | -43.1        | -6.9        | 2.1        | 1.2        |
| MSCI EMF                                 | -27.6                      | -47.0        | -53.2        | -4.6        | 8.0        | 8.7        |
| <i>Fixed Income Indices</i>              |                            |              |              |             |            |            |
| LB Government Bond                       | 8.0                        | 10.1         | 12.4         | 8.1         | 6.1        | 6.2        |
| JP Morgan Global Hedged Bond Index       | 6.4                        | 9.1          | 9.4          | 6.1         | 5.7        | 5.6        |

Sources: Cambridge Associates and Northern Trust

<sup>1</sup> Total Return: average annual compound return (dividend or interest plus capital appreciation or depreciation)

<sup>2</sup> Provided by Cambridge Associates on a quarter lag.

<sup>3</sup> New strategies reflecting data starting 7/1/2008.



# INVESTED FUNDS (IF)

For the Quarter ending December 31, 2008

Total Return<sup>1</sup> (%)

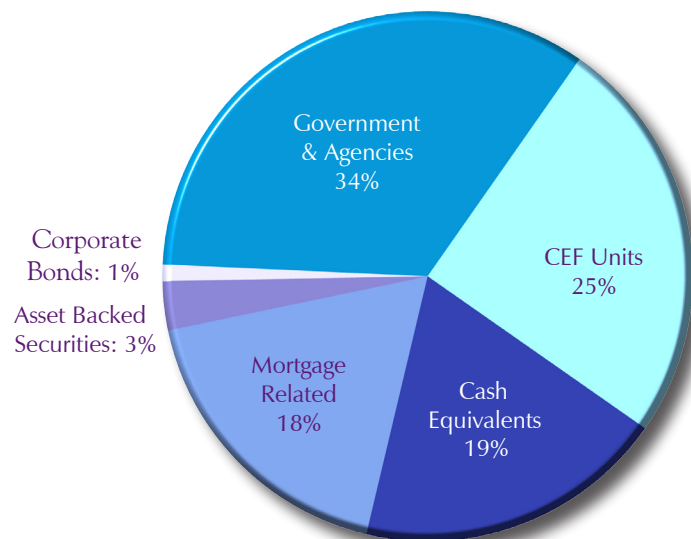
|                               | 2 <sup>nd</sup> Qtr<br>FY 2009 | FYTD        | 1-Year      | 5-Year     | 10-Year    |
|-------------------------------|--------------------------------|-------------|-------------|------------|------------|
| <b>Cash</b>                   | <b>1.0</b>                     | <b>2.6</b>  | <b>5.2</b>  | <b>3.9</b> | <b>4.8</b> |
| Citi 2 Year Treasury          | 3.2                            | 5.4         | 7.8         | 4.2        | 4.7        |
| <b>Liquidity</b>              | <b>3.9</b>                     | <b>4.8</b>  | <b>5.9</b>  | <b>4.3</b> | <b>5.3</b> |
| LB Intermediate Govt Bond     | 6.2                            | 8.1         | 10.4        | 5.3        | 5.7        |
| <b>IF excluding CEF units</b> | <b>3.1</b>                     | <b>4.1</b>  | <b>5.8</b>  | <b>4.2</b> | <b>5.2</b> |
| Weighted Benchmark            | 5.1                            | 7.1         | 9.5         | 5.0        | 5.4        |
| <b>IF including CEF units</b> | <b>-2.4</b>                    | <b>-5.7</b> | <b>-5.9</b> | <b>4.8</b> | <b>5.6</b> |
| Weighted Benchmark            | 0.5                            | -0.8        | -0.4        | 5.6        | 5.6        |

<sup>1</sup> Average Annual Compound Return

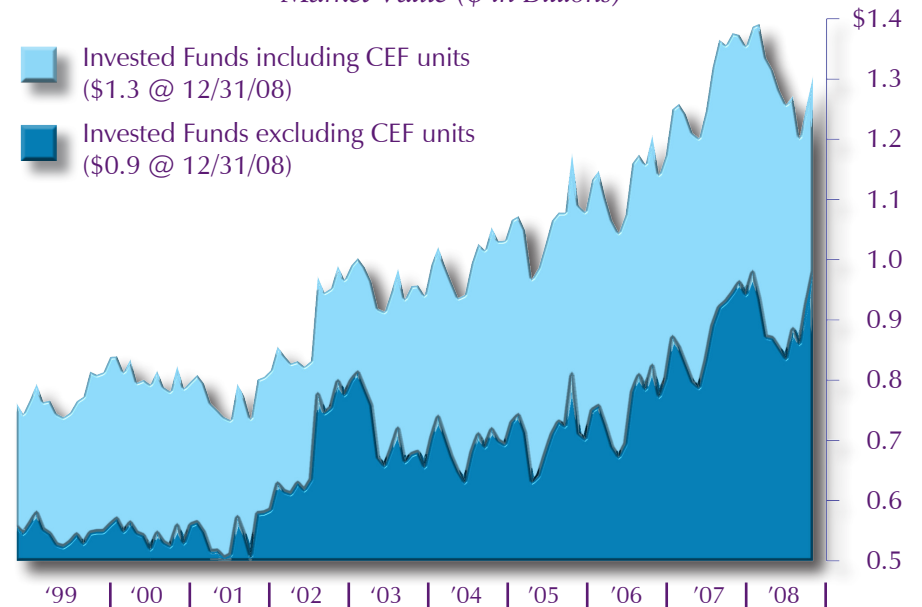
Fund Allocation by Pool (\$ in Millions)

|                                   | Fund Allocation |             | Range          | Duration   |                |
|-----------------------------------|-----------------|-------------|----------------|------------|----------------|
|                                   |                 |             |                | Actual     | Maximum        |
| <b>Cash Pool</b>                  | <b>\$347</b>    | <b>27%</b>  | <b>10%–40%</b> | <b>0.3</b> | <b>3.0 yrs</b> |
| Liquidity Pool                    | 634             | 49%         | 30%–60%        | 2.6        | 4.2            |
| <b>Total Cash &amp; Liq. Pool</b> | <b>\$981</b>    | <b>75%</b>  |                |            |                |
| CEF Units held by IF              |                 | 25%         | 15%–40%        |            |                |
| <b>Total Invested Funds</b>       |                 | <b>100%</b> |                |            |                |

Mix of Investments<sup>1</sup>



Market Value (\$ in Billions)





# UWINCO SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

## JANUARY 1, 2008 THROUGH DECEMBER 31, 2008 (\$ IN MILLIONS)

*By the Chief Investment Officer*

### *Public Markets*

| Approved | Action        | Manager / Fund                      | Strategy                          | Investment (\$MM) |
|----------|---------------|-------------------------------------|-----------------------------------|-------------------|
| 02/15/08 | Sale          | Northern Trust—S&P 500 Futures      | Domestic Equity (\$21.4 notional) | -\$5.0 collateral |
| 03/20/08 | Reup          | Brookside Capital Partners          | Domestic Equity \$3.0             |                   |
| 05/16/08 | Purchase      | Northern Trust—S&P 500 Futures      | Domestic Equity (\$59.9 notional) | \$8.0 collateral  |
| 06/16/08 | Termination   | AXA Rosenberg                       | Domestic Equity -\$116.0          |                   |
| 07/14/08 | Purchase      | Northern Trust—S&P 500 Futures      | Domestic Equity (\$25 notional)   | \$5.0 collateral  |
| 10/13/08 | Sale          | Northern Trust—S&P 500 Futures      | Domestic Equity (\$30 notional)   | -\$5.1 collateral |
| 10/28/08 | Sale          | Northern Trust—S&P 500 Futures      | Domestic Equity (\$26 notional)   | -\$5.0 collateral |
| 10/31/08 | Reallocation  | Snyder Capital                      | Domestic Equity (change cap type) | na                |
| 02/15/08 | Liquidation   | SSGA EAFE                           | International Developed           | -\$24.0           |
| 02/29/08 | Reduction     | Arrowstreet Capital                 | International Developed           | -\$5.0            |
| 02/29/08 | Reduction     | GMO                                 | International Developed           | -\$5.0            |
| 02/29/08 | Reduction     | Harris International Large Cap      | International Developed           | -\$5.0            |
| 02/29/08 | Reduction     | Harris International Small Cap      | International Developed           | -\$5.0            |
| 08/05/08 | Addition      | Lone Cascade                        | International Developed           | \$10.0            |
| 10/02/08 | Redemption    | Steel Partners                      | International Developed           | -\$12.5           |
| 01/25/08 | New           | Lone Dragon Pine                    | International Emerging Markets    | \$7.5             |
| 02/29/08 | Liquidation   | Goldman Sachs—Emerging Markets Swap | International Emerging Markets    | -\$17.8           |
| 02/29/08 | Reduction     | Martin Currie China                 | International Emerging Markets    | -\$10.0           |
| 10/17/08 | New           | Dynamo                              | International Emerging Markets    | \$10.0            |
| 10/24/08 | Liquidation   | Wellington                          | Real Assets                       | -\$46.1           |
| 10/24/08 | New           | Wellington Management               | Fixed Income                      | \$10.0            |
| 10/24/08 | New           | Payden & Rygel                      | Fixed Income & Liquidity          | \$49.0            |
| 10/24/08 | Guideline Chg | Wellington Management               | Liquidity (change to allow TIPS)  | na                |

# UWINCO SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

## JANUARY 1, 2008 THROUGH DECEMBER 31, 2008 (\$ IN MILLIONS)

*By the Chief Investment Officer*

### **Public Markets (Continued)**

| Approved | Action      | Manager / Fund                 | Strategy                | Investment (\$MM) |
|----------|-------------|--------------------------------|-------------------------|-------------------|
| 12/01/08 | Addition    | Lone Cascade                   | International Developed | \$10.0            |
| 12/19/08 | Liquidation | Harris International Large Cap | International Developed | -\$20.0           |
| 12/19/08 | Reduction   | Harris International Small Cap | International Developed | -\$14.0           |
| 12/19/08 | Liquidation | Morgan Stanley Real Assets     | Real Assets             | -\$10.0           |
| 11/01/08 | Reduction   | Morgan Stanley                 | Liquidity               | -\$20.0           |
| 11/01/08 | Addition    | Pugh Capital Management        | Liquidity               | \$20.0            |

*By the Senior Vice President*

### **Public Markets**

|          |             |                                     |                      |    |
|----------|-------------|-------------------------------------|----------------------|----|
| 10/10/08 | Termination | Northern Trust Bank                 | Investment Custodian | na |
| 10/10/08 | New         | State Street Bank and Trust Company | Investment Custodian | na |

# UWINCO SUMMARY OF ACTIONS TAKEN UNDER BOARD DELEGATED AUTHORITIES

## JANUARY 1, 2008 THROUGH DECEMBER 31, 2008 (\$ IN MILLIONS)

*By the Chief Investment Officer*

### *Private Markets*

| Approved | Action      | Manager / Fund               | Strategy                    | Investment (\$MM) |
|----------|-------------|------------------------------|-----------------------------|-------------------|
| 01/25/08 | New         | Rimrock Capital              | Absolute Return             | \$20.0            |
| 01/25/08 | Reup        | Varde Partners               | Absolute Return             | \$20.0            |
| 03/20/08 | New         | Baupost Value Partners       | Absolute Return             | \$50.0            |
| 04/10/08 | Termination | Och Ziff                     | Absolute Return             | -\$29.0           |
| 04/10/08 | Termination | Sirios Capital Partners      | Absolute Return             | -\$15.0           |
| 07/23/08 | New         | Centerbridge Credit Partners | Absolute Return             | \$20.0            |
| 10/09/08 | Addition    | Baupost Value Partners       | Absolute Return             | \$20.0            |
| 10/31/08 | Termination | Morgan Stanley               | Absolute Return             | -\$34.0           |
| 11/01/08 | Liquidation | Satellite Asset Management   | Absolute Return             | -\$16.0           |
| 12/19/08 | New         | SIR Capital Management       | Absolute Return             | \$5.0             |
| 04/10/08 | Reup        | Riverside Capital            | Non-Marketable Alternatives | \$7.0             |
| 04/10/08 | Reup        | TPG                          | Non-Marketable Alternatives | \$6.0             |
| 05/02/08 | New         | HIG Bayside                  | Non-Marketable Alternatives | \$10.0            |
| 05/02/08 | Reup        | Madrona Venture Partners     | Non-Marketable Alternatives | \$5.0             |
| 05/22/08 | Reup        | JC Flowers                   | Non-Marketable Alternatives | \$8.0             |
| 07/14/08 | New         | Accel - KKR Capital Partners | Non-Marketable Alternatives | \$7.0             |
| 03/03/08 | Reup        | Cabot Industrial Value Fund  | Real Assets                 | \$12.0            |
| 03/03/08 | Reup        | Square Mile Partners         | Real Assets                 | \$10.0            |
| 04/10/08 | New         | CarVal Global Value Fund     | Real Assets                 | \$5.0             |
| 05/02/08 | New         | Denham Capital Management    | Real Assets                 | \$9.0             |
| 05/23/08 | Reup        | Avanti Land Investors        | Real Assets                 | \$12.0            |